CHAPTER **5**

Understanding Revenue

Chapter Objectives

- Understand where revenue comes from for sport enterprises.
- Understand the various revenue sources for organizations in the professional sport industry.
- Understand sources of revenue for collegiate sport and other amateur sport organizations.
- Understand the various sources of revenue for sporting goods companies and other sport organizations.
- Understand the importance of revenue planning for sport organizations.

Revenues in the Sport Industry

- Many sources of revenues for most sports organizations
- Organizations can have multiple revenue streams
- Constantly work to increase revenue streams
  - Decline in revenues may result in an organization either finding new revenues or slashing costs
- Revenue options may be limited for a multitude of reasons

For Profit or Nonprofit Organizations

For Profit

- Maximize owner and shareholder wealth
- Maximized profits = net income
- Motivational differences
  - Desire for profits or winning championships

Nonprofit

- Maximize revenues for expense or reinvestment for the organization
- Facility upgrades, coaches' salaries, academic support

Revenues in Professional Sports: Broadcasting Rights

- **Largest source for major North American sports leagues (e.g., MLB, NFL, NBA, NHL)**
- **Different styles of distribution**
  - **NFL sells only national TV broadcast and video streaming rights.**
  - **NHL, MLB, and NBA allow teams to sell local broadcasting rights for their market.**
- **Revenues from national broadcasting rights sales are often shared equally.**
- **Historically, revenues have increased with each deal.**

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Revenues in Professional Sports: Broadcasting Rights *(continued)*

Table 5.2 Professional Sport National Broadcasting Deals

League	Partners	Years	Payment
NFL	CBS, Fox, NBC, ESPN	2014-2022	$4.5 billion/year
NBA	ESPN and TNT	2016-2025	$2.6 billion/year
MLB	Fox, TBS, ESPN	2014-2022	$1.4 billion/year
NHL	NBC and Rogers (CAN)	2013-2024	$418 million/year

Source: Total Sportek (2017a).

Revenues in Professional Sports: Ticket Sales

- **Especially important to organizations without advantageous broadcasting deals (e.g., NHL, WNBA, MLS, minor leagues)**
- **Technological advances have changed the industry.**
  - **Variable pricing—Ticket prices are set based on expected demand for games before the season begins.**
  - **Dynamic pricing—Computer models estimate demand in real time, allowing prices to constantly change.**
- **Allows for economic forces of supply and demand**

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Revenues in Professional Sports: Ticket Sales *(continued)*

- **Club seats—High-quality seat locations with added amenities (e.g., private concourse, concessions, and restrooms, private staff, preferred parking)**
- **Luxury suites—Enclosed spaces that seat 10-30 people with indoor/outdoor seating and have private catering, flat-screen TVs, and theater-style seating**
  - **Designed for corporations and extremely wealthy individuals**
- **Popular due to increased pricing charged for inventory**

Revenues in Professional Sports: Corporate Partnerships, Sponsorships, and Signage

- **Significant long-term revenue stream**
- **Many forms (e.g., Microsoft is labelled the “official tablet of the NFL” and tablets are seen being used on sidelines)**
- **Controversial for some organizations**
  - **For example, would fans approve of corporate naming rights for Yankee Stadium?**

Revenues in Professional Sports: Naming Rights

- **Corporation purchases the right to attach its name to some part of a sports facility or event**
- **Common in professional sports**

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Revenues in Professional Sports: Naming Rights *(continued)*

Table 5.3 Most Expensive Naming Rights Deals

Stadium	Team	Sponsor	Total value (millions of dollars)	Length of deal (years)
MetLife	New York Jets/Giants	MetLife	450	25
AT&T Stadium	Dallas Cowboys	AT&T	400	20
Citi Field	New York Mets	Citigroup	400	20
Mercedes-Benz Stadium	Atlanta Falcons	Mercedes-Benz	310	27
Reliant Stadium	Houston Texans	NRG Energy	300	30

Source: Badenhausen (2016).

Revenues in Professional Sports: Licensed Merchandise

- **Usually controlled by the league, not individual franchises**
- **Subsidiary model**
  - **Licensee pays upfront fee and royalty to the licensor (i.e., the league or team)**
  - **Royalty is approximately 6%-18% wholesale prices based on units sold**
  - **Very lucrative**
  - **$3 billion sales in NFL and MLB per year on average**

Revenues in Professional Sports: Ancillary Activities

- **Most of revenue retained by team (i.e., not shared with league members)**
- **Parking**
  - **Can vary greatly across organizations based on facility ownership**
- **Concessions**
  - **Often subcontracted to national firm (e.g., Aramark, Levy)**
  - **Contracting minimizes risk**
- **Event-hosting services**

Revenues in Professional Sports: Sale of Player Contracts

- Common of international sports organizations, especially soccer (e.g., English Premier League or La Liga [Spain])
- Transfer fee—Money paid to one club for the contract held by another club for a player
  - Players may negotiate percentage of transfer fee
- Revenue and expense for teams
  - Important revenue source for smaller clubs

Revenues in Intercollegiate Athletics

- Uniqueness role of intercollegiate athletics in the United States
- Sources are similar to professional sports
- Big business for some universities
  - NCAA Division I FBS median annual revenues = $63 million
  - NCAA Division II median annual revenues = $6.5 million
- Many programs don't cover costs and instead rely on university for subsidization
  - Students' activities fee common source

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Revenues in Intercollegiate Athletics *(continued)*

Table 5.5 Median Generated Revenue for NCAA Division I (FBS) Institutions, 2015

Source	Total
Total ticket sales	$8,992,000
NCAA and conference distributions	$6,080,000
Guarantees and options	$878,000
Cash contributions from alumni and others	$9,531,000
Concessions, programs, and novelties	$1,071,000
Broadcast rights	$2,568,000
Royalties, advertising, and sponsorships	$3,290,000
All other	$1,182,000

Source: Fulks (2016).

Revenues in Intercollegiate Athletics: Broadcasting Rights

- **Negotiated at the conference level for regular season and conference playoff games**
- **Determined by the home team**
- **Lucrative if a part of major conference (e.g., SEC, BIG 10, ACC)**
- **Notre Dame football negotiates its own TV broadcasting deal for home games**

Revenues in Intercollegiate Athletics: NCAA Distribution

- 90% of NCAA revenue is distributed to member programs
- Distribution for coverage of national tournaments such as March Madness, FBS Playoffs, College World Series, etc.
- Basketball fund
  - Distributes money to conferences based upon participation of each conference in Men's Basketball Tournament (i.e., March Madness)
  - Conferences then distribute to member schools through a revenue-sharing plan specific to that conference

Revenues in Intercollegiate Athletics: Alumni and Boosters Donations

- **Median annual donations for Division I programs: $9.5 million**
- **Many different forms and types of small to large contributions (e.g., cash, stock, real estate, commodities)**
- **Can be allocated for specific purposes by the donor or placed in general accounts**
- **Donor benefit—Traditionally, tax deductible on federal income taxes**
  - **New federal tax law**
  - **Often necessary for access to tickets**

Revenues in Intercollegiate Athletics: Game Guarantees

- Payment made to entice a team to play another team in a sporting event
- Common in major football and men's and women's basketball
- Substantial increase in size of guarantees
- Benefits for both sides
  - Smaller programs—Vital revenue that exceeds money it can make from home games
  - Larger programs—Another home game with corresponding revenues and generally an easy win

Revenues in the Sporting Goods Industry

- More traditional in revenue sources (i.e., sell products and services)
- Large sporting goods companies generate revenue from sale of tangible products
- Important to look at 10-K to analyze companies

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Revenues in the Sporting Goods Industry *(continued)*

- **Under Armour—Global sporting apparel and equipment manufacturer**
  - **2016: $4.8 billion in annual revenue**
  - **Considerable growth in revenue from 2016: +262% over 4 years**
  - **2016 vs. 2017: financial concerns for 2017**
  - **Reasons for 2017 decline**

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Revenues in the Sporting Goods Industry *(continued)*

- **Important to know revenue sources across geography and compare growth**

Table 5.6 Under Armour Revenue Sources by Continent, 2016

Area	Net revenues (in millions)	% of net revenues
North America	$4,005	83.0
Europe, Middle East, and Africa	$330	6.9
Asia-Pacific	$268	5.6
Latin America	$141	2.9
Connected fitness	$80	1.6
Intersegment eliminations	$1.4	<1.0
Total	$4,825	100

Source: Under Armour Annual Report (filed 2/23/17).

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Revenues in the Sporting Goods Industry *(continued)*

- **Important to know revenues across product segments and compare growth as well**

Table 5.7 Under Armour Revenue by Product Segment, 2016

(in millions)	Year ended December 31, 2016	Year ended December 31, 2015	% change
Apparel	$3,229	$2,801	15.3
Footwear	$1,010	$677	49.1
Accessories	$406	$346	17.2
Total net sales	$4,646	$3,825	21.5
License	$99	$84	18.6
Connected fitness	$80	$53	50.6
Intersegment eliminations	$1.4		
Total net revenues	$4,825	$3,963	21.8

Source: Under Armour Annual Report (filed 2/23/17).

Revenues in the Sporting Goods Industry: Seasonality

- **Sales for a sport are affected due to adverse conditions that prevent participation**
  - **Common in golf, skiing, and tennis**
  - **Must plan accordingly to deal with drop in revenues**
  - **Affects sales cycles (e.g., holiday shopping causes sales to weaken in January)**

Revenue Planning

- Developing strategies to generate revenue is key part of financial planning
- Address immediate issues affecting bottom line or develop long-term strategies
- Common to have mergers and acquisitions to help leverage competitive advantage
- Can be limited by various rules and regulations

Class Discussion Topics

1. **What are the primary revenue sources for a nonprofit sports organization?**
2. **What are the differences between expenses at an NCAA Division I program and a Division III program?**
3. **Develop a list of revenue streams for a professional baseball team.**
4. **Develop a list of revenue and expense streams for a publicly traded sportswear company.**

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Class Discussion Topics *(continued)*

5. **Develop a list of revenue streams for a NASCAR racing team.**
6. **For a professional sport team, what revenue source(s) to you see growing the most in the next decade? Why?**